

Chapter 6

A conceptual and regulatory framework

Lily, Yao

CREATING GREAT OUTCOMES

through professional qualification training
and study abroad services and preparation

Main contents

- ◆ Regulatory framework 监管框架
- ◆ Conceptual framework 概念框架

Why a regulatory framework (监管框架) is necessary for **preparation of financial statements**

- I. To ensure that the **needs of the users** of financial statements are **met** with at least a basic minimum of information.
- II. To ensure that all the **information** provided is both comparable and consistent.
- III. To **increase users' confidence** in the financial reporting process.
- IV. To **regulate the behavior** of companies and directors towards their investors.

◆ A typical regulatory structure

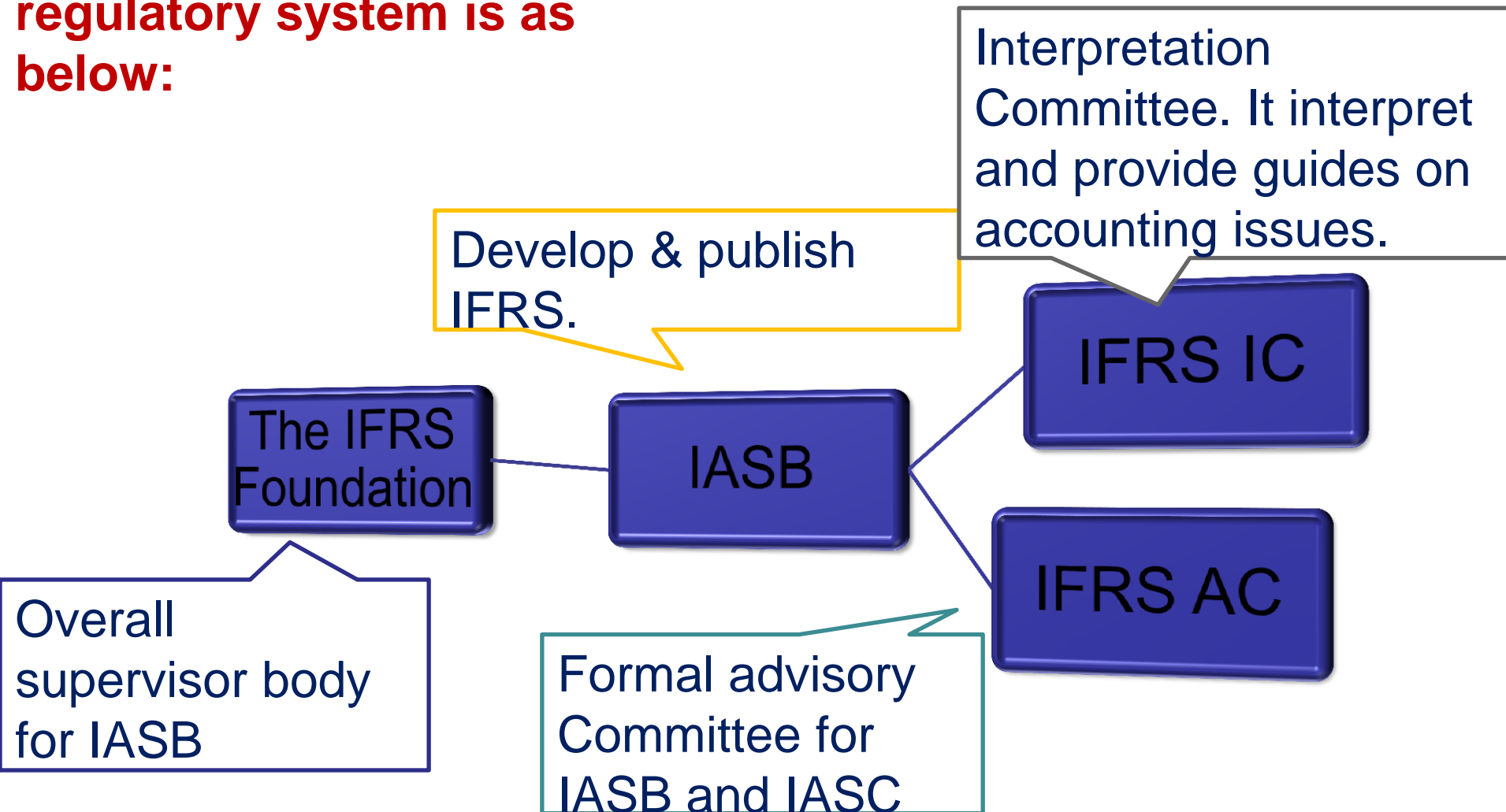
- National financial reporting standards 国家财务报告准则
- National law 国家法律
- Market regulations 市场法规
- Security exchange rules 证券交易法规

- ✓ National financial reporting standards is the **fundamental part in regulatory structure**.
- ✓ What we learn in Financial reporting is **not “national”**, but **“international”**. That is called **International Financial Reporting Standard (IFRS)**

IFRS are **not enforceable** in any country. To become enforceable, they must be adopted by a country's national financial reporting standard setter.

How does IFRS come out?

The structure of the its regulatory system is as below:



➤ International Financial Reporting Standards Foundation 国际财务报告准则基金会

- ✓ The supervisory body for the IASB
- ✓ Responsible for governance issues and ensuring each body is properly funded.

Objectives:

- I. **Develop** a set of high quality, understandable, enforceable and globally accepted **financial reporting standards** ;
- II. **Promote using and applying** these standards
- III. **Bring about the convergence (趋同)** of national and international financial reporting standards.

- **International Accounting Standards Board (IASB) 国际会计准则理事会**
 - I. Solely responsible for issuing** international accounting standards. (Standards are now called IFRSs)
 - II. Its intention is to develop a single set of understandable and enforceable high quality worldwide accounting standards.
 - III. IASB can not enforce compliance with its standards.
 - IV. It requires the co-operation of national standard setters.**

- **International Financial Reporting Interpretations Committee (IFRIC) 国际财务报告解释委员会**
- I. Issues **rapid guidance on accounting matters** where divergent interpretations of IFRSs have arisen.
 - II. These must **be approved by the IASB**.
 - III. The interpretations cover both
 - a. Newly identified financial reporting issues **not specifically dealt with in IFRSs**.
 - b. Issues where unsatisfactory or conflicting interpretations have developed, or seem likely to develop in the absence of authoritative guidance.

➤ The IFRS Advisory Council (IFRS AC) 国际财务报告准则咨询委员会

不解释专业问题

The IFRS AC is the formal advisory body to the IASB and the IFRS Foundation.

Their objective:

- I. Advising the IASB on **agenda decisions** 议程决策 and priorities in the Board's work;
- II. Informing the IASB of the **views of the organizations and** individuals on the council with regard to major standard setting projects; 信息的传递者，将重要的客户、公司的意见反馈给委员会
- III. Giving other advice to the IASB or to the trustees.

◆ Conceptual framework 概念框架

➤ The contents of conceptual framework

- ✓ The objective of financial reporting
- ✓ The underlying assumption of F/S- Going concern
- ✓ The **qualitative characteristics** of financial information
- ✓ The **definition, recognition and measurement** of the elements of financial statements

➤ The purpose of conceptual framework

IASB

- I. Assist the Board in the **development of future IFRSs** and in its review of existing IFRSs;
- II. Assist the Board in **promoting harmonization by providing a basis for reducing** the number of **alternative treatments** permitted by IFRSs;
统一、一致
- III. Assist **prepares of financial statements in applying IFRSs** and in dealing with topics which are yet to be covered in an IFRS.
帮助会计运用准则
- IV. Assist **national standard-setting bodies** in developing national standards.
- V. Assist **users to understand** the reported financial information.
- VI. Assist **auditors** when they are forming an opinion as to whether FSs conform with IFRSs.
帮助审计师发表意见

Which of the advantages below is NOT a likely advantage of the global harmonisation of accounting standards?

会计准则全球统一化

- A Greater comparability between different firms
- B Greater ease for preparing consolidated financial statements
- C Easier for large international accounting firms
- D Greater compatibility with legal systems ✓

与法律系统更大的兼容性无法保证，每个国家的法律体系也有差别

➤ **Underlying assumption-Going concern**

The going concern basis assumes that the entity has neither the need nor intention to liquidate or curtail materially the scale of its operations in foreseeable future.

破产清算

大幅度减少经营规模

➤ The qualitative characters of financial information

✓ Fundamental qualitative characteristics 核心质量特征

a.Relevance 相关性

- ① predictive value
- ② confirmatory value 可证实
- ③ material (threshold quality) 重要性水平
- ④ timely

b.Faithful representation (completeness, neutrality and free from error), 公允披露 中立 substance over form objective

➤ Enhancing qualitative characteristics

a.Comparability 可比性

b.Verifiability 可证实性

c.Timeliness 及时性

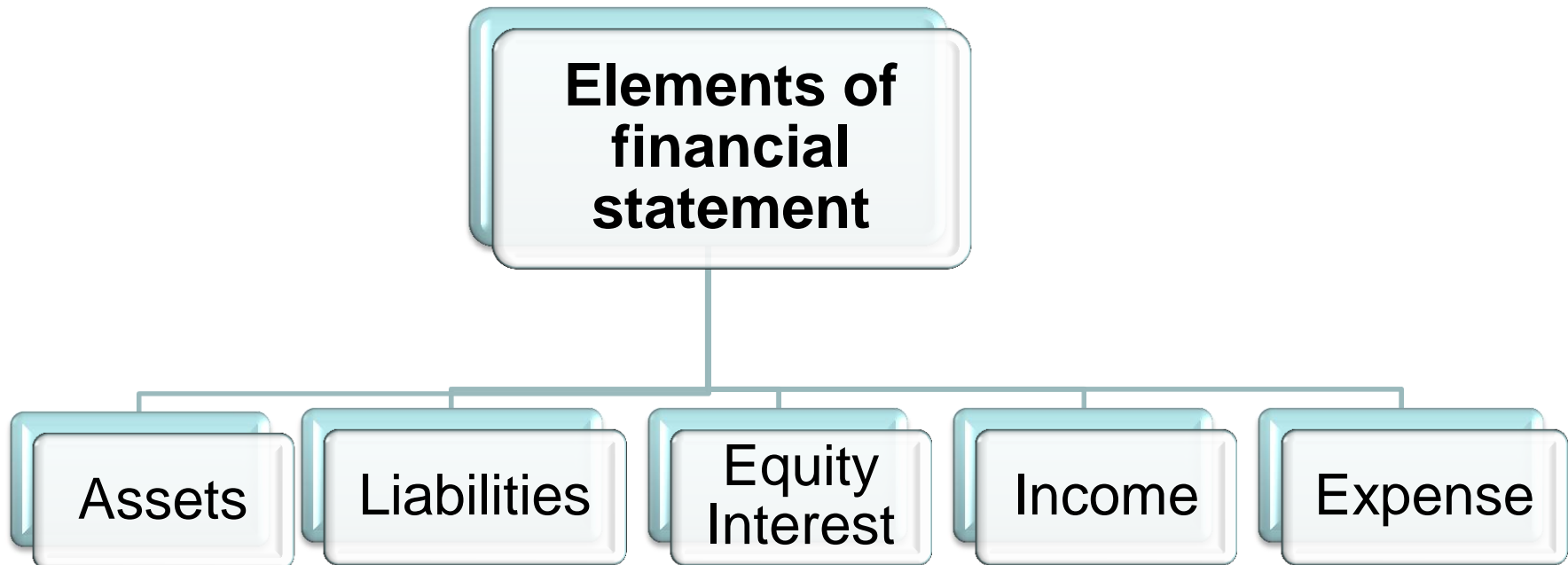
d.Understandability 可理解性

Example

Which of the following is an example of following the principle of faithful representation?

- A Showing lease payments as a rental expense
- B Being prudent by recording the entire amount of a convertible loan as a liability
- C Creating a provision for staff relocation costs as part of a planned restructuring
- D ✓ Recording a sale and repurchase transaction with a bank as a loan rather than a sale

➤ The elements of financial statements



✓ Assets

I. Resources **controlled by the entity**

II. As a result of **past events**

III. From which **future economic benefits** are expected to flow to the entity.

✓ Liabilities

I. An entity 's **present obligations**

II. To **transfer economic benefits**

III. As a result of **past transactions or events** .

✓ Equity interest

the **residual amount** found by deducting all liabilities of the entity from all of the entity's assets.

Dr: Asset / Liability

Cr: income

收入一般伴随着资产的增加或负债的减少

✓ Income

- I. An **increase in economic benefits** during the accounting period in the form of **inflows or enhancements of assets or decreases in liabilities**.
- II. Transactions that result in **increases in equity**, other than those relating to contributions from equity participants.

Dr: Expense

Cr: Asset / Liability

✓ Expenses

- I. **Decreases in economic benefits** during the accounting period in the form of **outflows or depletions** (消耗、损耗) of **assets or incurrence of liabilities**
- II. Transactions that result in **decreases in equity**, other than those relating to distributions to equity participants.

➤ Key points in Recognition of the element

- I. It **meets the definition** of an element of the financial statements.
- II. The amount can be **measured** with **sufficient reliability**
- III. there is sufficient **evidence** of its **existence**, which means the **cash inflow or outflow is quite probable**.

➤ Principles-based Vs Rules-based system

✓ Principles-based (used by IASB) 原则导向

I. **Based upon a conceptual framework** such as the IASB framework.

II. **More flexible but** requires **judgment and interpretation** which could lead to inconsistencies between reporting entities and can sometimes lead to the manipulation of financial statements.

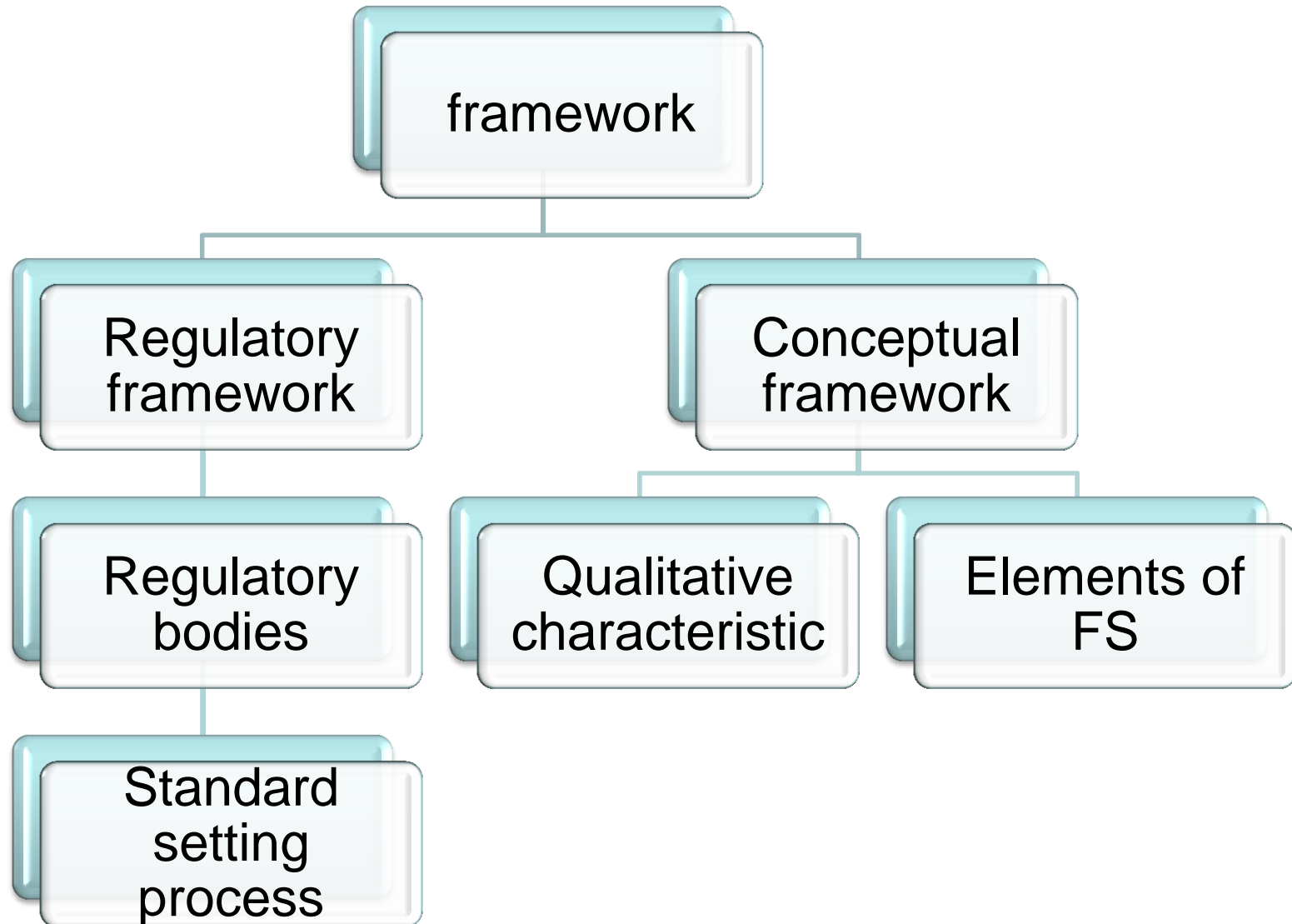
III. It avoids 'fire-fighting', where standards are developed in responses to specific problems as they arise 避免针对特定的问题解决，只给宏观的原则指导

IV. It allows preparers and auditors to deal with complex transactions which may not be specifically covered by an accounting standard

V. Principles-based standards are thought to be harder to circumvent 原则导向的准则被认定为难以被挑出错误，宏观的指导

- ✓ **Rules-based** (cookbook approach, used in the US)
 - I. Relies on a series of **detailed rules** or accounting requirements that prescribe how financial statements should be prepared.
 - II. Less flexible, but more comparable and consistent**
 - III. Accounting standards are a set of rules which companies must follow.

Summary



Exercise

Question Bank

P22-25

Exam kit

T37-50